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STATE FOR WHA/CAR (JTILGHMAN)
WHA/EPSC (VDEPIRRO)
TREASURY FOR SARA GRAY

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SUBJECT: JAMAICAN THINK TANK ANALYZES INVESTMENT SCHEMES

REF: KINGSTON 005

07 KINGSTON 1749
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Summary

11. (U) The Jamaican think tank Caribbean Policy Research Institute (CaPRI) based at the University of the West Indies has released the first independent analysis on alternative investment schemes which have proliferated on the island. A range of schemes promising annual returns of up to 180 percent have flourished on the island in recent years (see reftels). The study is drawn from surveys of 400 investors involved in the schemes and from discussions with local financial institutions. The study concludes that at least 14,300 people participate in the schemes with millions of dollars at risk. A majority of respondents said they do not expect a government bail out or widespread social unrest if the funds collapse. The report was welcomed by the GOJ, which already was taking steps to regulate the schemes. End Summary

Money Does Not Seem To Add Up

12. (SBU) CaPRI estimates that at least 14,300 Jamaicans have invested in these schemes, forty-seven percent of which have invested for less than a year. Despite the low number of estimated investors, CaPRI concludes, that based on estimates from various financial institutions, the amount already invested in these schemes could be between JAD 100-200 billion (USD 1.4 billion to USD 2.8 billion). COMMENT: This figure appears very high in light of the size of the Jamaican economy and is also higher than other sums reported in the press. If these figures are accepted, it would mean the schemes have funds equal to between 15 to 30 percent of Jamaican's annual GDP of about USD 9 billion. If we use the figure of 14,300 Jamaicans provided by CaPRI it would also indicate participants have an average of USD 98,000 to USD 196,000 invested. It would appear either that there are significantly more people investing in these schemes than 14,300 or that the amount being held is vastly overestimated. The figures proposed by CaPRI would indicate that even if the entire 2.7 million population of Jamaica, which has a per capita income of about USD 3,400, were invested, each Jamaican would have between USD 518 to USD 1,036 in a scheme. END COMMENT.

Violence Anticipated, But Not Widespread

¶3. (SBU) CaPRI also estimates that a majority of participants are middle class and would be able to absorb the losses should schemes collapse. Among those surveyed, most do not anticipate a GOJ bail-out in the event of collapse. The evidence indicates that many of the schemes, which have opaque investment strategies and resemble pyramid schemes, are unsustainable and their collapse is inevitable.

Seventy percent of respondents said smaller social disturbances, including protests and/or riots, violent outbreaks at business offices, and the killing of the owners of these schemes were probable. However, most believe that the likelihood of wide-spread social unrest is low.

Collapse is Inevitable

¶4. (SBU) A few of the schemes on the island already appear to have collapsed, including Higgins Warner Investments which closed its offices in Montego Bay. The most well-known scheme, Cash Plus, currently is under a cease and desist order from the Jamaican Courts until it is registered with the Financial Services Commission (FSC).

In a public statement, it has asked investors to forgo their interest payments while it takes 90 days to restructure its operations (reftel C). Attorney for Cash Plus, Bert Samuels, told Radio Jamaica reporters on January 24 that the scheme has more than 11,000 clients who have invested nearly USD 57 million.

Type of Investor Involved

¶5. (SBU) CaPRI suggests that, despite popular perceptions, the schemes are not the domain of poorer Jamaicans but rather are used by middle-class investors who recognize the risks involved. COMMENT: CaPRI's findings comport with anecdotal evidence collected at Post regarding currency trading firms like Olint, but seems inconsistent with the lower-economic class of individuals that have turned up to demonstrate in support of Cash Plus. Until these schemes come under more scrutiny by the GOJ, and the names and numbers of investors are released, it will be difficult to determine what type of investors are participating in these schemes and how that will affect social stability. END COMMENT.

Macroeconomic Impact of Collapse

¶6. (SBU) CaPRI claims the collapse of the funds will only have a short term impact on the economy and that there should be a quick recovery of key macroeconomic indicators. COMMENT: Given Jamaica's exorbitant debt challenges, inflation of 16.8 percent for 2007 (well above the 6-7 percent target), and the possibility of recession in the U.S. economy, the country may have more difficulty absorbing a widespread collapse of these schemes than the CaPRI report indicates. If post-collapse violence does emerge, it could discourage tourism visits, which would likely cause negative ripple effects in the economy. Tourism remains the number one foreign exchange earner for the country. Jamaica, which relies heavily on the local bond market, also depends on stable credit rating; any additional shocks to the economy could result in a downgrade of its rating by international credit agencies. END COMMENT.

GOJ Policy, Bailout Not Likely

¶7. (SBU) The study recommends that the GOJ not offer any kind of bail-out or rescue package to investors or firms which lose money as a result of a collapse. CaPRI suggests the GOJ regulatory authority should take measures to bring these schemes into the formal regulated securities structure. The FSC has already taken these steps, it issued cease and desist orders against two currency trading groups (Olint and LewFam Investments) in December 2007, after the Jamaican Supreme Court ruled that they were operating illegally. This judicial decision encouraged the FSC to issue the cease and desist orders against Cash Plus on January 17. IMF experts who reviewed the Jamaican economy in November 2007 also endorsed aggressive scrutiny of these unregulated financial schemes.

18. (SBU) Prime Minister Bruce Golding has told the press (see reftels) that the GOJ will not offer a bailout. Widespread press reporting of the schemes has also resulted in political finger pointing by the ruling Jamaican Labor Party (JLP) and the opposition Peoples National Party (PNP). JLP Finance Minister Audley Shaw claims GOJ attorneys advised the former Finance Minister, Dr. Omar Davies, to take action in regulating the scheme, which Shaw claims Davies failed to do.